

# **Bond of Depository Instructions**

**The penal sum for a district may be determined by one of two methods.**

1. The penal sum of the depository bond shall be at least equal to 103 percent of the current daily balances in each account as they may fluctuate throughout the life of the bond; or
2. The penal sum of the depository bond shall be at least equal to the highest daily balance in each account each month for all accounts in the previous year.

A district is limited to current FDIC regulation when excluding that amount from the penal sum.

**Only the following securities and obligations may be accepted as collateral (KRS 41.240).**

- (a) Bonds, notes, letters of credit, or other obligations of or issued or guaranteed by the United States, or those for which the credit of the United States is pledged for the payment of the principal and interest thereof, and any bonds, notes, debentures, letters of credit, or any other obligations issued or guaranteed by any federal governmental agency or instrumentality, presently or in the future established by an Act of Congress, as amended or supplemented from time to time, including, without limitation, the United States government corporations listed in KRS 66.480(1)(c);
- (b) Obligations of the Commonwealth of Kentucky including revenue bonds issued by its statutory authorities, commissions, or agencies;
- (c) Revenue bonds issued by educational institutions of the Commonwealth of Kentucky as authorized by KRS 162.340 to 162.380;
- (d) Obligations of any city of the first, second, and third classes of the Commonwealth of Kentucky, or any county, for the payment of principal and interest on which the full faith and credit of the issuing body is pledged;

- (e) School improvement bonds issued in accordance with the authority granted under KRS 162.080 to 162.100;
  - (f) School building revenue bonds issued in accordance with the authority granted under KRS 162.120 to 162.300, provided that the issuance of such bonds is approved by the Kentucky Board of Education; and
  - (g) Surety bonds issued by sureties rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
- (5) The State Treasurer shall accept letters of credit issued by federal home loan banks as collateral under this section.

## **What does KDE need for approval?**

- 1.) A completed Bond of Depository form
  - 2.) A listing of pledged collateral with current market values listed
- or, A copy of the letter of credit
- or, A copy of the Surety Bond

The undersigned, \_\_\_\_\_ Bank of \_\_\_\_\_, Kentucky, hereinafter referred to as the Depository, hereby acknowledges itself bound to the Commonwealth of Kentucky, and the \_\_\_\_\_ Board of Education, in the penal sum of \_\_\_\_\_ dollars (\$\_\_\_\_\_) \* that it, as depository of the \_\_\_\_\_ Board of Education, shall well and truly discharge the duties of said office according to law, account for, to the proper authorities, and pay over to all parties legally entitled thereto on proper warrants all funds that may come into its hands as Depository of the Board of Education aforesaid for a maximum of 2 years, beginning July 1, 20\_\_.

As collateral for this undertaking the undersigned hereby pledges \_\_\_\_\_ (type of collateral\*\* - attach portfolio) in the principal sum of \_\_\_\_\_ dollars (\$\_\_\_\_\_)\*\*\* deposited in escrow with the \_\_\_\_\_ Bank of \_\_\_\_\_, Kentucky, hereinafter referred to as the Escrow Agent, evidenced by the safekeeping receipt filed in the offices of the local board of education, provided, however, that at no time shall the amount of collateral be reduced without the execution of a new bond which shall have prior approval by the Kentucky Department of Education, Division of School Finance, Frankfort, Kentucky.

The undersigned, the Depository, hereby reserves the right unto itself, (1) to detach and collect for its own use and benefit all coupons of said bonds as they mature; (2) to substitute for any of said bonds, other United States Government bonds and/or Kentucky School Revenue Bonds of the same face or par value; (3) to terminate all liability under this bond and escrow deposit by giving thirty (30) days notice, in writing, of its intention to do so to the chairperson of the \_\_\_\_\_ Board of Education, by registered mail, addressed to such chairperson at \_\_\_\_\_, Kentucky, and to the chairperson of the Kentucky Board of Education, by registered mail, addressed to such chairperson at Frankfort, Kentucky. Within the thirty days, the Depository shall make statements with the board, pay over all funds in its hand to the board, and exhibit to the Escrow Agent a copy of the settlement, duly receipted by the secretary and chairperson of the board. The Board of Education shall cancel this bond only by giving thirty (30) days notice in writing, of its intention to do so, to the Depository, by registered mail, and to the chairperson of the Kentucky Board of Education by registered mail.

It is further conditioned that liability of this bond in not to be effectual until Federal Deposit Insurance protection is exhausted.

IN WITNESS WHEREOF, the undersigned has caused its corporate name to be subscribed and its corporate seal to be affixed hereof, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Name of Bank \_\_\_\_\_

By (Bank Official) \_\_\_\_\_ Title \_\_\_\_\_

We hereby certify to the Commissioner of Education that the bond appearing hereon is a true copy of the bond executed and delivered by the Depository of this Board of Education, and it was approved by the \_\_\_\_\_

Board of Education on \_\_\_\_\_, 20\_\_.

Chairperson \_\_\_\_\_ Secretary \_\_\_\_\_

\* Should agree with penal sum.

\*\* This collateral shall consist of United States Government Bonds, Kentucky School Revenue Bonds, and/or Federal Government Agency Obligations.

\*\*\* May not be less than penal sum.